ROLE OF U.S. GOVERNMENT GUARANTEE AND TRADE FINANCE PROGRAMS IN RESPONDING TO INTERNATIONAL DEBT ISSUES

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Executive Summary

This study was undertaken to determine the role that certain U.S. Government trade finance programs might play in responding to countries experiencing extraordinary liquidity problems. It examines existing programs of the Export-Import Bank, Commodity Credit Corporation (CCC), the Economic Support Fund (ESF), and the Foreign Military Sales Program (FMS) to determine how they can be adapted to offer assistance that would address LDC debt problems. The study emphasizes ways to build on these programs and improve their effectiveness, including the allocation of resources, and analyzes the costs and benefits of the proposed increase in resources.

The aim has been to develop a comprehensive approach should the U.S. Government be called upon to assist LDCs with adjustment programs, rather than to relieve them of the burden of adjustment and the disciplinary pressure involved. Official export support programs can be adapted so as to catalyze U.S. private sector participation rather than relieve bankers and exporters of reasonable and appropriate levels of risk and should not distort normal credit patterns. The facilities should be used to help reestablish private trade finance activities. The special programs so designed should have sunset provisions. This study also considers burden-sharing with other major countries and what the U.S. Government's position should be in its absence.

There is a strong presumption that the necessary "trigger" for the extraordinary use of a U.S. trade finance program is the existence of an IMF monetary stabilization program and successful implementation of its conditionality requirements. The application of each specific program would be tailored to specific debtor needs and U.S. objectives.

The focus of this analysis is to determine the adequacy of Eximbank's and CCC's budget authority for FY 83 and FY 84, if these agencies are called upon to provide extraordinary financing in response to the international debt problem through the end of FY 84. For the purpose of this paper, extraordinary financing refers to special trade finance facilities established as part of a broader package of U.S. Government, foreign government, private sector, and international agency financing relief efforts for a country experiencing a severe liquidity crisis.

1. Eximbank

Congress authorized FY 83 Eximbank program limits of $4.4 billion in direct credits and $9.0 billion in guarantees and insurance. For FY 84, the Administration is requesting program limits of $3.8 billion in direct credits and $10.0 billion in guarantees and insurance. The requested increase in guarantee and insurance authority was designed to encourage the continued availability of credit for U.S. exports in the face of the ongoing indebtedness problems in developing countries.

Eximbank has enough excess guarantee and insurance authority for FY 83 and FY 84 to provide extraordinary financing to respond to the debt crisis. If direct credit authority is used for this purpose, Eximbank has sufficient direct credit authority for FY 83, but the Administration may have to request supplemental direct credit authority for FY 84. Eximbank's excess program authority is estimated to be $7.0 billion: $5.0 billion in guarantees and insurance (of which $2.0 billion remain for FY 83 and $3.0 billion for FY 84) and $2.0 billion in direct credits (FY 83 only).

Based on an evaluation of indicative country trade accounts, rough estimates of the maximum extraordinary financing requirements over and above FY 82 Eximbank authorization levels are (1) $1.0-2.0 billion, if one major country and two medium-sized countries need extraordinary financing; (2) $2.0-3.0 billion, if two major countries and four medium-sized countries need extraordinary finance; and (3) $3.0-3.6 billion, if three major countries and six medium-sized countries need extraordinary finance.

Eximbank could deliver extraordinary finance within its current FY 83-84 budget either by using guarantee and insurance authority to establish Mexico-type lines of insured credit or by using direct credit authority to provide balance of payments loans. Either mechanism can be structured to provide additional liquidity support. The debtor country could draw down extraordinary loans in advance of actual purchases to be used as short-term liquidity financing. Insurance facilities could be used to generate additional liquidity if bank access to the facilities is contingent upon the banks' participating up to their fair share in new lending to each country. Both mechanisms can also be implemented rapidly, although disbursements could probably proceed more quickly under an Eximbank direct credit.

It is recommended that generally the delivery mechanism for extraordinary Eximbank financing be through the special insurance and guarantee facilities rather than direct credits, because (1) use of insurance facilities is consistent with the Administration's Eximbank budget policy to place more emphasis on guarantees and insurance; (2) insurance facilities fall within the parameters of existing Eximbank insurance and guarantee programs (already designed as multipurpose lines) and would not require the policy changes required to use the direct credit mechanism; (3) insurance facilities would have considerably less budget impact, particularly since Eximbank has considerably more excess guarantee and insurance authority than direct credit authority and would not lead to supplemental direct credit budget requests for FY 84; and (4) insurance facilities could be used to encourage a greater commercial bank role in responding to liquidity problems. Nonetheless, direct credits may be needed in certain special cases to provide a quick infusion of funds. *

2. Commodity Credit Corporation

CCC currently has no guarantee authority remaining in its FY 83 $4.8 billion ceiling. Therefore, it would need to reprogram underutilized guarantee lines or request an increase in its ceiling, if presented with requests for extraordinary financing in the remaining two months of this fiscal year.

CCC's FY 84 guarantee ceiling of $3.0 billion may be inadequate to respond to potential demand for extraordinary financing. The $3.0 billion ceiling reflects demand for CCC guarantees (1) to meet subsidized competition ($400 million), and (2) to develop, maintain, and expand export markets ($2.6 billion). In setting this ceiling, OMB did not specifically take into account demand for CCC guarantees to deal with the ongoing problem of illiquidity in many developing countries. However, since many countries which are traditional users of CCC guarantees are those experiencing serious debt problems, the current $3.0 billion ceiling could accommodate some portion of the demand for CCC guarantees directly related to debt problems.

Treasury has also identified eight countries that might require extraordinary CCC financing in FY 84 of such a large volume that it could not be met within CCC's existing authority. Treasury has made a rough estimate that these eight countries might require $3.0 billion of additional CCC guarantees in FY 84 in order to maintain imports of U.S. agricultural products at normal levels. Prior to FY 83, CCC had authorized about $600 million annually to this group. Thus, we estimate that roughly $2.4 billion of this potential requirement might be considered extraordinary. A portion of this extraordinary financing might

* OMB does not believe that Eximbank direct credits are the appropriate mechanism to use to provide a quick infusion of funds. Such short-term liquidity problems are better addressed by mechanisms such as the Exchange Stabilization Fund.

be accomodated within CCC's current FY 84 $3.0 billion ceiling as well.**

Any CCC resources earmarked for use in responding to extraordinary debt situations should be held in reserve subject to a decision by the SIG-IEP (or a group designated by the SIG-IEP) to release them.

3. Other programs

The Economic Support Fund (ESF) and the Foreign Military Sales (FMS) credit programs are also involved in the international debt crisis. Where the ESF is used in countries facing serious debt problems, there are no obstacles to using it as short-term, fast disbursing assistance linked to policy reform or IMF programs; the Congress, however, may object to the use of the Fund for debt relief.

The FMS credit programs -- which are large and growing -- have become part of the debt problem in some debtor countries. The role of Military Assistance Credit Programs should be revived in a separate but related exercise.

4. Conditionality

The provision of these extraordinary financing facilities for both CCC and Eximbank should be linked to a number of explicit, but flexible, conditions, according to individual country circumstance. These include:

(1) The government of the recipient country should provide its full faith and credit guarantee.

(2) The facilities should be specifically linked to continued commercial bank financing and might be used as an incentive

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** Agriculture disagrees with this analysis. It does not think any of its FY 84 $3.0 billion ceiling should be used for extraordinary purposes related to international debt problems. Instead it estimates that the FY 84 ceiling should be increased by as much as $4.8 billion based on its country-by-country analysis of demand for credit.

for commercial banks to participate in their fair share in new lending to each country.***

(3) Other governments should provide new credits along with the increase in U.S. credits to assure equitable sharing of the financing burden.

(4) The extraordinary credits should be provided only to countries with IMF stabilization programs and which stay in compliance with them.

(5) Any pending or impending debt rescheduling arrangements would normally form an integral part of such extraordinary financing.

*** The facilities should be linked to the extent possible to continued commercial bank finance. The program should not enable banks to reduce their unguaranteed exposure, but rather should induce additionality by the carrot rather than the stick. As appropriate, access might be provided on a preferential basis to commercial banks that are participating up to their fair share in new lending to debtor countries.

There is no intention that U.S. authorities or agencies would pressure individual U.S. banks to make specific lending decisions. However, in major debtor countries with significant IMF programs, there have been specific proposals that commercial banks should increase their exposure by a particular percentage or maintain trade and interbank lines at levels reflecting a given date in the past. The borrowing countries have their own lists of how individual banks have performed; the borrowers on a preferential basis might allow banks that have met the criteria to obtain prior access to the extraordinary financing guarantees before offering them to banks which have not maintained or increased their exposure.